

2010

Annual Report

Seeking a New Radiance

Reaffirming Our Course,
Offering New Value

Wisdom and Beauty for People and the Earth

Since KOSÉ's founding in 1946,
the seminal concept of its corporate activities has been
"To offer the highest-quality cosmetics to each and every customer,
drawing on our original technologies."

The Company's objective going forward is
to win the support of customers throughout the world.

Today, KOSÉ is entering
a new era based on
its tradition.



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Forward-Looking Statements

This annual report contains forward-looking statements about KOSÉ Corporation's future plans, strategies, and performance that are not historical facts. Risks and uncertainties resulting from changes in the business environment may have a significant effect on the actual business results. Please also note that we shall not be held responsible for any omissions or errors in data and content in this document.

For KOSÉ, tradition does not mean continuing along the same paths without changing the ways it does things.

As we pursue KOSÉ's unchanging mission of making the world a brighter place through cosmetics, we are evolving and continuing to innovate. It is precisely this "constant change" that is KOSÉ's tradition.

Change Born from Tradition

The wellspring of KOSÉ's originality is its courage to break through and clear away the accepted wisdom and prevailing assumptions.

We at KOSÉ seek out the essence of the value that we offer to our customers and relentlessly pursue the challenge of continuing to develop unique cosmetic products ahead of anyone else while constantly creating KOSÉ anew.

Regenerating “KOSÉ, the Creator of Cosmetic Foundations”

Foundation products are an important cosmetic category because they are key to earning customer loyalty and will be indispensable going forward. In the 1970s, KOSÉ developed epoch-making foundation preparations one after another and experienced a series of successes, but in recent years performance of these products has been lackluster. Beginning in 2005, KOSÉ launched its “Foundation Project” and focused on research, development, and promotion of these foundations. As a consequence, KOSÉ was able to develop many innovative new products and began to regenerate its past “KOSÉ-like” pattern of successes.

Disavowing Past Successes without Exception

In the Foundation Project, we first basically disavowed all our previous powder foundation-type

products and launched a thorough review that extended from the materials we use to our manufacturing processes. For example, beige-colored (phospholipid-coated) titanium dioxide was born as a new material from these initiatives, and it became the driving force for innovative change in various KOSÉ brands.

Building Brand Reputation and Individuality

In the case of the *ESPRIQUE PRECIOUS* brand line, we launched a powder foundation in 2007. We confirmed its basic quality about two years before introduction to the market, and gave it consideration as we continued its development. In a stagnant market for foundation sales, we were successful in generating revenues that exceeded the previous year's

foundation product levels. During the next season, *ESPRIQUE PRECIOUS BEAUTY SKIN PACT MOISTURE* was ranked number one in the powder foundation division in the customer word-of-mouth comment websites. Through these initiatives, we were successful in winning a loyal group of repeat customers, and *ESPRIQUE PRECIOUS* foundation became a powerful driver for the brand line as a whole. We are continuing to make improvements and evolve it into an even-better product. On the other hand, our high-prestige *COSME DECORTE* series—both *ETERNIA SUR FOUNDATION*, with its startlingly new feel, and *MAQUIEXPERT COVERING MAKEUP FOUNDATION*, for professionals—is performing above planned expectations.

Please see page 17 for further details on these products.

KOSÉ will continue to introduce products one after another that offer value that heretofore did not exist and thereby strengthen its position as a pioneer.



KOSÉ has many products that are long-running best-sellers and have won the strong support of customers around the world. These include *COSME DECORTE* and *SEKKISEI*, which have marked their 40th and 25th anniversaries, respectively, since their launch. KOSÉ's tradition of "constant change" is very much alive and well in these brand lines.

Creating Brands that Last

We have continued to build on these and other existing brand assets and evolve them on an ongoing basis.

The key to the longevity of KOSÉ brands is "high-quality counseling," a capability that is a special source of pride for KOSÉ. In our counseling activities, we can see the faces of individual customers. This enables us to communicate the attractiveness and true value of our brands and to offer them until our customers are fully satisfied.

Enhancing the Value of the SEKKISEI Brand

The SEKKISEI skin-care brand, which was launched in 1985, is a long-running best-seller that has now been enjoyed by two generations of mothers and daughters. Until the introduction of SEKKISEI, incorporation of Chinese herbal medicine approaches in cosmetics was rare. In naming this brand line, we used Chinese characters, which represented a departure from typical cosmetic naming conventions at that time. The characters mean “snow,” “skin,” and “essence” and suggest pure white, glowing, beautiful skin. SEKKISEI is currently marketed in Japan and 13 countries and economies around the world.

It will be essential for KOSÉ to continue offering its customers such long-running best-selling products, while also being attentive to changes in the times and laying the foundations for further development. Looking ahead, it will be necessary to maintain and enhance strong brands from a future-oriented perspective to achieve significant progress in KOSÉ's development.

Creating SEKKISEI that Goes Beyond SEKKISEI

The addition of SEKKISEI SUPREME, a preparation offering even more-advanced skin whitening properties, to the SEKKISEI line in April 2008 has made a major contribution to KOSÉ's overall performance.

In developing SEKKISEI SUPREME, we included four Japanese and Chinese plant-based ingredients to

combat skin damage resulting from the surrounding environment and stress. Among these, melothria heterophylla extract, which KOSÉ has researched for about 15 years, was specially chosen for its properties. Also, to give SEKKISEI SUPREME healing properties, KOSÉ adopted a new aroma therapy approach. In designing this preparation, we adopted a white bottle instead of the previous deep blue container, thus creating “white SEKKISEI.”

Counseling Puts Us Side by Side Our Customers

SEKKISEI SUPREME is being marketed strategically through carefully

selected retail stores, which offer their customers information and counseling. By providing customers with accurate information on SEKKISEI SUPREME and the differences between it and its predecessor SEKKISEI, KOSÉ is winning new customers and building a loyal, high-quality customer group. As we are adopting the same counseling sales approach for this product in overseas markets, including Asia in particular, we are anticipating further growth.

KOSÉ evolves its products to meet the changing needs of the times, and, by deepening its ties with customers, will continue to nurture numerous long-running best-selling brands.



Financial Highlights

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
For the Year				
Net sales	¥172,564	¥178,121	¥180,222	\$1,855,527
Gross profit.....	128,096	132,841	134,918	1,377,376
Operating income	10,132	12,303	15,187	108,946
Income before income taxes and minority interests.....	9,418	11,261	14,477	101,269
Net income.....	5,154	4,742	6,900	55,419

At Year-End

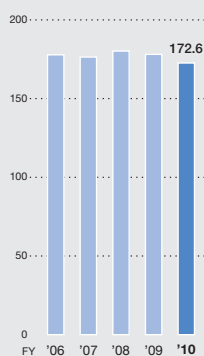
	2010	2009	2008	2010
Shareholders' equity	¥101,820	¥ 98,988	¥ 99,027	\$1,094,839
Total assets	167,395	166,920	172,128	1,799,946

Per Share

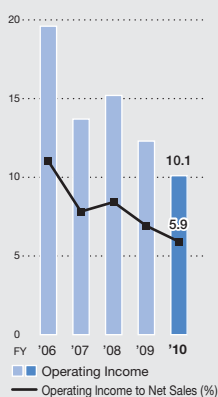
	Yen	Yen	Yen	U.S. dollars
Net income:				
Basic	¥ 88.81	¥ 81.55	¥ 115.50	\$ 0.95
Adjusted for stock splits.....	88.81	81.55	115.50	0.95
Net assets	1,746.59	1,699.92	1,693.55	18.78
Cash dividends.....	40.00	40.00	40.00	0.43

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥93=US\$1, the approximate rate of exchange on March 31, 2010.
2. See Six-Year Summary notes on page 26.

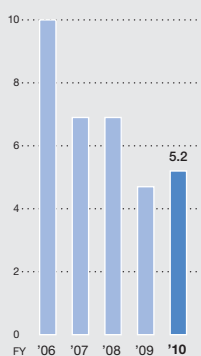
Net Sales
(Billions of yen)



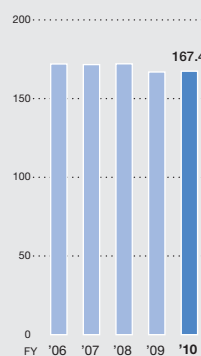
Operating Income and Operating Income to Net Sales
(Billions of yen)



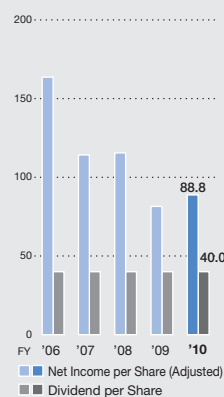
Net Income
(Billions of yen)



Total Assets
(Billions of yen)



Net Income per Share (Adjusted) and Dividend per Share
(Yen)



Shareholders' Equity and Equity Ratio
(Billions of yen)

